

USAID/Paraguay

Annual Report

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Paraguay

Performance:

Background: The past 15 years since the fall of the Stroessner dictatorship have seen the adoption of a new constitution, the establishment of freedom of expression, the development of a transparent and free electoral process, some improvements of the judicial system, including a transition to a judicial adversarial system allowing increased public scrutiny of legal cases, and the defense of democratic institutions in the face of severe challenges. These challenges include several coup attempts, the assassination of a Vice President, the resignation of a President and a replacement whose administration lacked direction, authority and credibility. Serious problems persist but since assuming office in August 2003, President Duarte and his Administration have implemented policies that initially renewed optimism and raised citizen expectations due to the President's forceful leadership in addressing corruption and his pledges to implement social and economic reform. However, President Duarte's personal approval rating has changed dramatically from its stratospheric heights of the early days of the Administration, a year ago.

The Duarte Frutos Administration that took office in August 2003 has produced an impressive list of accomplishments in its first 15 months in office. It displayed courage and prudence in restoring discipline to macro economic policy that averted a major default on international and domestic debt obligations, transformed alarming budget deficits into a small surplus, and brought inflation down to 4%. While un- and under- employment remain high (8% and 24% respectively) poverty rates have eased after peaking at nearly 50% of the population a year ago.

Initiatives by the Duarte Administration to improve governance and fight corruption have produced significant results. According to the Ministry of Finance, anti-corruption measures dramatically increased tax and customs revenues by 43% and 57% respectively, compared to collections the previous year. Public procurement reforms have increased transparency and competition and resulted in a 33% savings in government contract costs. Six Supreme Court magistrates, discredited for corrupt and unethical behavior were replaced utilizing a process to select new magistrates that afforded citizens an opportunity to scrutinize candidates' professional and ethical qualifications. The courts have sentenced or sustained challenges to convictions in high profile cases involving the president and seven member board of directors of the National Development Bank, the Director of the Central Bank and the Superintendent of Banks, giving hope that the rich and powerful are not always above the law. Former General Oviedo, who is also convicted for his role in a coup attempt in 1996, returned from Brazil this year and was immediately incarcerated in a military prison where is serving a 10-year sentence.

This and numerous other measures that demonstrated resolve and results in addressing corruption and pursuing responsible economic policies resulted in the Millennium Challenge Corporation (MCC) designating Paraguay eligible to apply for the Threshold Country Program. Areas in which Paraguay scored particularly low on Millennium Challenge Account (MCA) indicators include control of corruption, rule of law and governing effectively. While this selection will now afford Paraguay the opportunity to formulate a program to address these weaknesses with MCC resources, USAID's current program addresses important aspects of each of these important indicator areas.

U.S. Interests and Goals: The primary U.S. goal in Paraguay is to develop a robust democracy. Although worthy of our support, serious constraints in the current capacity of the Central Government in Paraguay make this a challenging goal. Among these constraints are weak skill levels of government managers, duplicative or nonexistent policies, and corruption. Combating terrorism, reducing transnational crime, and building a growing, diversified economy that strengthens economic well-being and democracy are also very important to the U.S. Government.

USAID's strategy is to strengthen decentralized power and authority in order to improve government accountability to citizens and to develop civil society and private sector grassroots level efforts as the basis for democratic governance, economic growth, improved trade capacity, improved health, and protection of ecologically sensitive areas. Much of the activity the Mission supports in all four SOs has a positive effect on fighting corruption. Finally, USAID has taken the lead to help local governments generate additional resources to improve services and infrastructure for their citizens. The Mission also supports activities which address deforestation and protection of biodiversity as well as supporting economic growth.

In accordance with Agency policy, it is in the U.S.'s interests to help Paraguay strengthen its development policies and performance defined by MCA principles. USAID's strategy is well positioned to support numerous reforms that are central to the Government of Paraguay's (GOP's) agenda and MCA principles.

The beneficiaries of this program are the people of Paraguay who receive improved basic services, increased employment opportunities, and who enjoy expanded opportunities to have their voices heard and their rights recognized for transparent and accountable governance.

Donor Relations: USAID is the second largest bilateral donor in Paraguay (after Japan) but its unique contribution is in having other donors build upon its pioneering activities, for example, strengthening civil society, addressing deforestation, judicial reform, and decentralization. The World Bank (WB), Germany and Japan now have programs to strengthen local NGOs and work through NGOs to develop programs with local communities and adolescents. The United Nations Development Program (UNDP), the Inter-American Development Bank (IDB), and Germany (GTZ) are continuing to collaborate with USAID on judicial reforms and decentralization activities initiated by USAID. The World Bank (WB) is developing a new health sector loan building upon USAID experiences in creating locally managed social pharmacies and health insurance programs. At a local level, USAID partners consistently collaborate with programs supported by other donors such as the European Union (EU) program supported health activities in Caaguazu Department, and IDB support to competitiveness in conjunction with USAID's economic growth SO.

In a joint effort by GTZ, UNDP, IDB, WB and USAID, a five-year strategic plan for the Supreme Court was developed and approved. This was the result of workshops and retreats with justices and other Supreme Court staff using technical experts provided by USAID and other donor agencies. The plan lays out the Court's activities over the next five years as well as its priorities in terms of improving access, transparency and professionalism of the Court. In addition, USAID, GTZ and UNDP collaborated on training to improve the capacity of public sector officials, consultants, donors and other partners to collaborate, share knowledge and network among the different actors on matters relating to municipal finance.

The Global Environmental Facility (GEF) has continued environmental activities with protected areas and eco-regions started by USAID. USAID currently selects areas in which to focus in close cooperation with the GEF program, which mobilizes considerably more funding than USAID. USAID is coordinating with UNDP, and the IDB to implement a debt swap that would invest financial resources into activities to protect high priority eco-regions with globally significant biodiversity. USAID continues to lead in health decentralization, and reproductive health activities, closely coordinated with the World Bank, the IDB, the Pan-American Health Organization (PAHO), the United Nations Fund for Population Activities (UNFPA), the United Nations Children's Fund (UNICEF), and Japan.

Challenges: The state of Paraguay's democratic institutions, civil society, and political parties indicates that substantial time and effort are still required to complete the transition to a fully functioning democracy and market economy. The GOP is committed to addressing the challenges related to economic reactivation, poverty and corruption. To accomplish this, reform and modernization of all branches of the government are necessary. They suffer from corruption and patronage, which have caused enormous inefficiencies in public service delivery and undermine citizens' confidence in their government institutions. Generally, popularly elected local governments are inexperienced and lack adequate financial and human resources, although they are perceived to be relatively more honest and competent.

The Mission continues to strengthen an active civil society in order to put pressure on the current political system to change and become more responsive to the needs of citizens. At the same time the Mission is assisting local governments to meet demands for basic public service delivery. The most progressive and positive system changes are taking place at the local and regional level and deserve continued support. Efforts with local governments and NGO's are being expanded and deepened with an emphasis on their role of ensuring the provision of basic services and promoting the use of natural resources in a sustainable manner. Anti-corruption initiatives have been introduced in the context of each program area. The Mission has also introduced major policy changes and is instituting good governance practices that are receptive to civil society's needs. Mission support in these areas is directly related to MCA goals of governing justly, investing in people and promoting free markets.

Due to the Nethercutt Amendment, the Mission may lose \$2.0 million, severely affecting its flag-ship program in local government strengthening and justice sector reforms. This cut will negatively impact the Mission's entire portfolio because the local government program is closely linked to work under the Environment and Health SOs.

The business environment discourages investment for private sector, both domestic and international. Unfair and illegal business practices such as smuggling and bribery make it difficult for legal activity to compete. Unclear, complicated and costly export requirements make it difficult to invest in export production. The World Bank's Doing Business Report, 2005 found that in Paraguay it takes, on average, 74 days to start a business. This is one of the highest in the world. These problems result in high risk ratings and expensive credit for private sector initiatives and make it difficult for Paraguay to compete internationally.

Paraguay's deforestation rate is the highest in Latin America (over one million hectares were lost between 1999 and 2001). Despite having signed and ratified almost all international agreements and treaties related to environmental protection, the country still lacks an integrated national policy for the environment. There are however, signs that environmental issues may begin to receive the attention they deserve, and there is improved coordination within the GOP on environmental issues. The GOP has taken the initiative to begin talks with various donors and NGO's on the creation of a debt-swap mechanism under the Tropical Forest Conservation Act (TFCA), and the creation of a national environment fund with IDB support. Despite the recent optimism, there is still unclear and contradictory national legislation and limited capacity of governmental institutions to deal with environmental issues.

Over 35% of pregnant women do not receive the appropriate pre-natal care necessary to help avoid complications. Improvements in reproductive health care are necessary to address two acute problems: 1) the unacceptable levels of maternal and infant mortality, and 2) excessively high levels of fertility. Effective reproductive health care delivery at the community level can be strengthened by channeling services through local institutions. This helps to improve the quality, timeliness, and responsiveness of the health services provided. The Ministry of Health (MOH) does not have the capacity to deal efficiently with these and other problems such as the supply of contraceptives, basic supplies, and medicines and additional outreach to adolescents on reproductive health and family planning issues. The Duarte Administration has expressed a commitment to improving health services and given form to its commitment to improve reproductive health by developing a national reproductive health strategy with well defined results and specific performance targets over time.

Key Achievements: Democracy. During the past several years, USAID/Paraguay has promoted anti-corruption efforts utilizing a bottom-up approach. In 2001, the Mission initiated support of a national watchdog network that has expanded from 10 chapters to 36 chapters and 4 regional offices to date. Over the next two years the Mission will help it expand to have nationwide coverage. Under the Democracy program, people have a greater voice regarding issues that directly impact them either at a national or local level. Oversight of public institutions at the national level has increased as demonstrated by technical assistance provided to an alliance of six NGOs that implemented a series of effective actions that assured transparency and participation in the selection process of six new Supreme Court justices. The new justices were selected by the Senate and approved by the President in March 2004.

The Mission has had strong success in strengthening democracy by helping local governments adopt more transparent budgeting, procurement and expenditure procedures, and to increase the accountability of local and national governments to their citizens for the use of public resources. As part of the Mission's civil society program but in coordination with public bodies, accountability is promoted by the actions of more than a dozen grassroots organizations and 15 new or improved citizen oversight mechanisms being supported to monitor local and national government officials to promote compliance with laws and operational norms and to denounce corruption when irregularities are encountered. Under the current administration several GOP ministries have signed agreements with civil society to promote transparency which has led to greater access to information and oversight of public entities. Finally, the Mission also piloted activities with the Central Government to demonstrate that line ministries, such as the Education Ministry, can effectively de-concentrate its operations and make them more effective and participatory at a local level.

Support was provided to multi-sectorial advocacy groups that focused on pushing for national reform via legislation in areas such as access to public information, citizen participation, and taxation reform as it relates to the non-profit sector. A direct result of this support was the standardization of congressional public hearings as regular practice for soliciting public input for proposed legislation such as the Forestry Act.

USAID's efforts have helped to improve press coverage regarding the extent of corruption and increase people's intolerance for such behavior. Public opinion polls show that corruption is one of the three most important issues for Paraguayans. The success of these efforts has contributed to putting corruption on the national agenda, and President Duarte Frutos has identified combating corruption as a top priority of his Administration.

Environment. During the past year, the Mission has achieved significant advances in protecting important priority areas for conservation purposes. These achievements were a direct result of stronger local NGOs being at the forefront of environmental issues. The priority areas are parts of globally important vast eco-regions that also encompass parts of Brazil, Bolivia and Argentina. Eco-regions are being protected through the development of a system consisting of core areas in which biodiversity is maintained through limited use, biological corridors linking the core areas that allow the movement of wildlife and sufficient genetic interchange to maintain viable populations, and zoned sustainable use areas that function as buffers and connections that surround the core areas and biological corridors.

Based on a previously completed Biological Vision for the Upper Parana Atlantic Forest (UPAF) a Social Pact was signed by all major stakeholders in the public, private and NGO sector to address deforestation. The Pact defines responsibilities of each of the sectors and how they should meet these.

Global Climate Change (GCC) was mitigated through the protection of various sections of the UPAF through presidential decrees and purchasing of land. Over 120,000 hectares were put under improved management for biodiversity. This includes an increase by 90,000 hectares in the size of the Rio Negro National Park, by Presidential decree, and over 30,000 hectares of improved management under partner programs. Departmental and municipal governments have begun to take cognizance of the role they can play in conservation efforts. Coordination amongst and between municipal and departmental governments has improved resulting in coordinated awareness raising programs, improved capacity of local level officials, promoting land zoning and implementation of a biosphere reserve.

Initial discussions by the end of the FY over a possible debt for nature swap under the TFCA were begun. USAID continues to encourage both public and NGO sector representatives to collaborate on this effort.

Reproductive Health. Many people in Paraguay are not receiving any type of health service, especially in rural areas, and reproductive health issues continue to be inadequately addressed. The GOP is facing budget reductions, cannot afford to pay for medicines and supplies at many public health facilities, and is generally providing low quality treatment. In light of this, USAID supported decentralization of health services has been successful in five departments and is a potential model to provide low cost services

and medicines for the poor. Successful implementation is generating interest from the MOH at a national level and from departments and municipalities throughout the country. A specific success of decentralized health services is a basic health insurance scheme in a municipality in southern Paraguay where the local health council, the community and the health center are working together to address basic health needs. The MOH began to replicate this model in five other municipalities.

USAID/Paraguay assumed a leadership role between the MOH, USAID, and UNFPA to carry out a Reproductive Health Survey which provides critical statistics on the awareness and status of reproductive health around the country, access to health care, and quality of health. The survey was implemented and information on major indicators was available by the end of the year. This is the first such survey in more than six years and for the first time has substantial donor involvement.

Trade. After its first full year, the economic growth program has generated over 80,000 person days of employment and almost \$800,000 in new investment. These are well above the targets for the year. The program also generated increased sales of over \$800,000 of which almost \$200,000 were exports. These were slightly below targets because of early startup challenges in the three geographic corridors where project efforts are focused.

As a result of a specific request by President Duarte to President Bush, the program is having an impact by encouraging a more analytical view of the marketing potential for stevia, which is a locally grown plant mostly used as a natural sweetener. USAID improved the business climate for stevia by removing obstacles to increased export of the product. The analysis also demonstrated alternative uses for stevia. Finally, support to forums and other activities which discuss formalizing the economy has resulted in a greater awareness of the need and benefits of doing so.

Global Development Alliance (GDA). USAID awarded a grant to the International Youth Foundation through a program to find jobs for young people. Through this core GDA a local NGO is implementing a \$470,000 grant from 2003 to 2005, which has resulted in approximately 500 youth with new skills in information technology, identification of employment for them and the creation of a job bank. In addition, the GDA Secretariat provided funds to add to Mission financial resources to award a cooperative agreement to a local NGO to support a broad alliance of private and public partners that will implement a good governance and anti-corruption program at the local level. Finally, a Mission funded GDA encourages local and international NGOs to work with the private sector and government to protect over 12,000 hectares in and around a reserve which forms a critical biological corridor between other protected areas.

Gender. A gender assessment was undertaken during the year and found that although many of the programs being implemented incorporate gender considerations into its activities, greater emphasis should be placed on assuring that all activities do so. By the end of the FY, there was mission-wide agreement to implement the recommendations from the assessment. In any case, women are by far the majority of beneficiaries of the health portfolio activities and of basic community services as a result of enhanced participation opportunities in civil society and with local government on local issues.

Those with Disabilities. The Mission assures that disability issues are addressed, by encouraging partners and others to improve access to those that are differently-abled, as well as by encouraging policies with partners that result in non-discriminatory employment opportunities or opportunities for benefiting under USAID supported programs. Early in FY 05 the Mission will complete a disability action plan and send this to its partners. USAID will encourage compliance with this as well as with local laws relating to disabilities.

Results Framework

526-001 Improved Responsiveness and Accountability of Key Democratic Institutions

526-002 Improved Management of an Expanded Protected Areas System

526-003 Increased Use of Voluntary Family Planning Services

526-004 Key Democratic Governance Practices Instituted

SO Level Indicator(s):

Improved and responsive delivery of public services, participative decision-making, active civil society, and transparent government management practices.

IR 4.1 More effective and accountable local governments developed.

IR 4.2 Development of an active civil society encouraged.

IR 4.3 National democratic reform process expanded.

526-005 Management of Globally Important Ecoregions Improved

SO Level Indicator(s):

Number of ecoregional or sub-ecoregional conservation plans.

IR 5.1 Ecoregional management capacity of local NGOs strengthened.

IR 5.2 Policy, legal and financial tools from improved ecoregional management developed.

526-006 Use of Voluntary Reproductive Health Services Increased

SO Level Indicator(s):

Couple-Years protection (CYP)

IR 6.1 Decentralized community based health care improved.

IR 6.2 Access to quality reproductive health services expanded.

526-007 Increased Incomes for the Poor in Selected Economic Regions

SO Level Indicator(s):

Employment/Investment generated in selected economic regions.

IR 7.1 Business development strategies implemented.

IR 7.2 Availability of financial services in target areas increased.

IR 7.3 Business environment for micro and small businesses improved.

526-008 Corruption Reduced and Good Governance Improved in Key Sectors

526-009 Health Coverage for the Underserved Population Improved

526-010 Employment generated through diversification of markets and products

526-011 Conservation Management of Globally Important Eco-regions Improved